THE PRICE POLICY OF THE UNITED STATES STEEL CORPORATION.

A UNIQUE industrial experiment is now in progress. The United States Steel Corporation has thrown down the gauntlet to the consumer. No matter how general and extreme may be the fall in prices and the stagnation in industry, the price of steel, if the power of the trust suffices, is to remain unchanged. Copper and wheat may fall, cotton and wool may decline to the lowest prices in ten years, all other commodities may drop to low levels, but the price of steel will not change. Strong in its control of the ore supply, especially confident in its business alliances, whose ramifications reach into the innermost councils of its largest customers, and relying also on the general spirit of co-operation among business men, which has developed contemporaneously with the trust movement, the United States Steel Corporation has set its face like a flint against any readjustment of prices to the changed conditions of demand.

The American people are deeply interested in the result of this experiment, for upon the revival of construction activity, upon the erection of office buildings and factories, the construction and extension of railroads, the repair and enlargement of the productive plant of society, depends the early revival of business. At present constructive activity is suspended, locomotive and car works are silent, railway building has ceased, no new mills are being erected. The demand for machinery and materials is less than half the volume of last year. These conditions, universal throughout the industrial sections of the United States, mean that one million men, whose average earning power is five hundred dollars per year,

are out of work, that the income which is spent in the retail stores has been heavily reduced, and that the industrial collapse is being felt to the very finger-tips of the industrial organism.

Demand for construction purposes is a demand for materials,—for brick, lime, cement, lumber, glass, copper, and zinc,—but pre-eminently a demand for steel. Last year twenty-three million tons of steel were absorbed by American industries. This year the consumption of steel will not exceed fifteen million tons. So much has the national development been retarded. Not until the demand for steel revives, moreover, will prosperity return. The revival of business may be connected with the revival in steel by the relations of either effect or cause, but, whatever the sequence of relation, the connection between the steel trade and prosperity is well known. When blast furnaces and converters begin to flame, general employment, large earnings, high dividends,—in a word, good times,—will return. Until the steel industry revives, depression will continue.

The Steel Trust has been severely criticised for its refusal to reduce prices. Its supreme power in the trade is untempered, it is claimed, by proper sense of responsibility for the public welfare. Instead of reducing prices to correspond with the declining condition of its customers, thus reducing their costs of construction and repair, and keeping its mills open and its workmen employed, thus adjusting its business to the conditions of depression, the officials of this brutal and grasping monopoly arrogantly announce that they see no reason for reducing prices, and that prices will be maintained. Moreover, altho the trust has many competitors in every line which it manufactures, its position as the dominant interest, controlling nearly two-thirds of the country's production of steel, enables it to persuade and influence

so-called independent producers to follow its lead, so that up to the first of April all the importunities and blandishments of consumers have been ineffective to secure any substantial concessions, either from the trust or from its nominal rivals. Meanwhile the export company of the trust is making active preparations to increase sales to foreigners at low prices which are refused to American consumers and which may enable the foreign manufacturers to underbid their American competitors.

This indictment of the United States Steel Corporation is framed in bitter words. It represents an almost universal sentiment, and the Steel Corporation must make a good defense. Unless the Corporation can disprove the accusation that it has used its power to oppress the consumer, and unless, also, the unfolding of events corroborates its claims, its position before the bar of public opinion will be most unfortunate. While there is no likelihood that the trust will be dissolved, the tariff question is not yet settled, and, unless it is settled in favor of existing duties on steel, the stockholders of the Steel Corporation may suffer.

This policy of upholding prices must be justified, not only from the standpoint of the Corporation's interest, but from that of the public interest as well. A business whose sales amount to $760,000,000 in a single year is a public concern. Its officials cannot deny their responsibility to the public as well as to their stockholders. They will not be allowed to oppose permanently the advantage of their Corporation to the welfare of the community.

The United States Steel Corporation answers its critics substantially as follows: "For seven years we have maintained stable prices in those branches of the steel industry which we are able to influence. During this period there have been repeated occasions in 1902, in 1905 and 1906–07,

when, without exciting any comment, we could have exacted much higher prices than those which we actually charged. To be specific, rails sold in 1899 at $35 per ton, when there was no trust: we have maintained for seven years a fixed price of $28 per ton. Wire nails went to $70 per ton in 1899: we have maintained them between $40 and $38 per ton. Again, the price of pig iron, the basic product of the industry, we do not control, and the price of pig iron for immediate delivery has several times during the last five years equalled the price of steel rails. There have been times within the last two years when we could have added 20 per cent. to the price of every one of our products without causing a ripple of excitement. In the face of such conditions of demand our prices remained substantially unchanged. We fixed them at figures which we believed to be fairly remunerative, and which did not unduly burden the consumer, and at these figures, with trifling variations, they remained. We have had no secret prices, no special concessions, no rebates to favored buyers. Our policy has been one of equal rights to all, special privileges to none. This policy has powerfully contributed to the maintenance of business stability. All classes of our customers, from the railroad to the retail hardware dealer, have known what their steel would cost them months in advance of their purchases. They have therefore been able to base their calculations of the future, so far as our policy entered into these calculations, upon certainties. There have been no surprises in the price of steel. In the few cases where price changes have been necessary, our customers have had ample notice. We believe that we have treated the public fairly in the past, and that we are justified in disregarding the present depression, which is unlikely to be of long duration, by continuing a price policy which, while yielding us fair

profits, in the long run has proven very beneficial to our customers and to the public."

The claims of the Steel Trust as to its moderation in the past are corroborated by the visible evidence of price movements in the trade. The statements of the trust are borne out by the record of prices. Before it took command of the steel industry, there were alternations of boom and depression; there were no fixed prices of steel; rebates and discriminations, quite as serious as any ever practised by the railroads, were the regular order; the buyer cancelled his contracts when the market turned against him, and tied up the mills with long engagements, often at unprofitably low prices, when the market began to improve. In place of a régime of anarchy the Steel Corporation has introduced the reign of law. To a condition where everything was uncertain, irregular, unstable, has succeeded a period of calm and order, in which the only disturbing influences are in the lines in which the Steel Trust is not yet dominant. The course of iron and steel prices for the past fifteen years supplies an impressive argument in favor of the benevolent industrial despotism which the United States Steel Corporation has established.

The argument of the trust in favor of maintaining prices rests upon facts easy to be verified by any one. Its statements, so far as these relate to the past seven years, we have seen, are true, and its conclusions are plausible. It is true that the preservation of stable prices in spite of the temptation to advance them, as, for example, in 1906 and 1907, has been a profitable policy for the trust. By holding prices on an even keel, it has developed the maximum demand, and has encouraged large orders and prompt specifications against those orders. A runaway market in steel has always, moreover, been followed by a decline caused by the unwillingness of large con-

sumers to pay exorbitant prices. That this policy of stable prices has been profitable does not, however, disprove that it has been highly beneficial to the entire business community.

The argument of the trust, then, can only be refuted by showing that the benefits to the public from a general reduction of the price of steel to correspond with the fall in the prices of other materials will considerably overbalance the damage which the Steel Corporation, and through it the public, would suffer in the derangement of industrial conditions.

Any consideration of the price policy of the Steel Trust must take account of the peculiar industrial structure of this Corporation, which sets it, in a sense, apart from other enterprises, and forces it into policies peculiarly its own. Because of the ownership of its sources of raw material supply, buying only a small portion of the materials used, it manufactures steel at a fixed cost, the labor element being the only variable, and fluctuations in labor cost not being an important factor. The profits of the Corporation, therefore, since its costs are relatively stationary, are far more sensitive to price changes than those of producers who buy their coke and ore or iron. The latter find partial compensation for the decline in the selling prices of their products in the reduction of their costs of materials. The Steel Corporation, however, properly speaking, has no cost of materials. It produces its own materials, and its profits per ton of output must therefore follow its selling prices.

This peculiarity of the trust's constitution has an important bearing upon its policy in the present crisis. Half the producing capacity of the Corporation is at this time in operation, and net earnings are at the rate of $6,000,000 per month. They will, if conditions do not change for the worse, exceed $80,000,000 for the year.

The amount of water in steel securities has been variously estimated. It is not unfair to place it at the amount of the common stock, $508,000,000. The Corporation was, however, organized with abnormally heavy fixed charges (to which the absurd bond conversion scheme of 1902 materially added), and it has, in addition, the embarrassing obligation of paying all dividends on its preferred stock, if not this year, then two years in one, before the common stockholders can receive any return. It is perhaps unfair to say that the Corporation is paying interest and dividends on water; this could be said, with any confidence, only as to the 2 per cent. on its common stock. Nevertheless, it is unfortunate, from the standpoint of its position in the present crisis, that its capital carries so large an amount of fixed payments into the income account. On the basis of the 1907 report the annual fixed payments of the Corporation, including interest, sinking fund appropriations, taxes and depreciation and replacements, —all payments which the company must make in order to meet its obligations and maintain its properties,—amount to $56,700,000. The 7 per cent. dividend on the preferred stock calls for $25,300,000 additional. The Corporation does not expect to pass its preferred dividend. Even tho the amount spent in maintaining its plants should be temporarily reduced, the preferred stockholder will, if possible, be provided for. The passing or even the postponement of this dividend would immediately raise a general doubt of the solvency of the trust, and such an action must, if at all possible, be prevented. The United States Steel Corporation is now earning almost enough, even on its present reduced scale of production, to pay fixed charges and preferred dividends, and the dividend on the common stock is so small, calling for only $10,000,000 a year, that the Corporation, which has a surplus of over $100,000,000, will not be severely censured,

should it decide, at least for the time being, to maintain this 2 per cent. dividend.

Prospects, moreover, are improving. The worst of the depression has been passed. Times may be dull for a year, but well-informed observers believe that business will grow no worse. A 50 per cent. employment of its mills is, therefore, the most serious situation with which the trust is likely to be confronted, and there is a fair prospect that the foreign sales, which were 10 per cent. of the total volume of business in 1907, will be materially increased. Even if lower prices are charged the foreign consumer, which seems probable, these sales will furnish a larger number of tons over which the fixed expenses of the company will be distributed, and will therefore increase its profits, even if made at the bare cost of production.

The preservation of this state of affairs, so desirable from the standpoint of the investor and the Corporation, depends upon, first, the maintenance of the present scale of prices under which the Steel Corporation earns $16 per ton profit, or, if a policy of reducing prices is chosen, upon an increase of sales sufficient to offset the reduction of prices. For, be it repeated, the cost of production of the Steel Trust is a fixed cost. The Corporation produces practically everything which it consumes. In such times as these it buys practically nothing. While the independent steel maker is buying pig iron six dollars per ton cheaper than a year ago, the United States Steel Corporation, which during a dull market is able to produce all its own iron, has the same cost of steel production as last year,—probably, indeed, a higher cost, because of the reduced output of many of its mills. A 20 per cent. decline in the average price of its products, which to the independent producer would be largely offset by his reduced cost of materials, would mean to the Steel

Corporation that, if its tonnage did not show a material increase in response to lower prices, its profits, instead of averaging $80,000,000 per year, would fall to $50,000,000, hardly sufficient for fixed charges and depreciation, leaving nothing for preferred dividends, and immediately conjuring up in the minds of investors the spectre of bankruptcy. A 20 per cent. decline in steel is a smaller reduction than has been repeatedly experienced in the past. A less reduction than 20 per cent., in case the Corporation should decide upon a change in its policy, would not meet the expectations and demands of consumers, and yet, failing a corresponding increase in demand, 20 per cent. off present quotations of steel would reduce the net earnings of the United States Steel Corporation perilously close to Mr. Micawber's dividing line between happiness and misery.

No intelligent man desires that the United States Steel Corporation, our most typical and our most important industrial institution, should be placed in a position where either its solvency or the maintenance of its preferred dividends would be endangered. Even a well-defined rumor of either event would produce consequences entirely impossible to contemplate with satisfaction. Public opinion may revolt at the eventual payment of large dividends on Steel Common, and the people will not be entirely satisfied on this point, even tho the trust replaces the water of combination out of the profits of monopoly prices. But that, as we have seen, is a question for the future, and we are now dealing with a present emergency. The weighty criticisms of the Corporation's policy of maintaining prices are based upon the assumption that reduced prices would mean larger consumption of steel and greater employment of labor. If, however, it can be shown that the effect of reducing prices would not be to stimulate the consumption of steel, but, on the

contrary, would retard the return of prosperity by encouraging buyers to hold off in the hope of further cuts and concessions, the justification of the Steel Corporation's determination to hold prices firm in the face of depression and reduced demand, in the minds of thinking people at least, will be complete. If the public welfare will not be advanced by a cut in steel, and if the Steel Trust will be injured, certainly the price of steel should be maintained. On the other hand, if the Steel Trust could increase its sales by reducing prices sufficiently to offset the reduction, and if its only reason for maintaining prices is the difficulty of getting them back to their present figures against the protests of the consumer after a cut has been made, (we may be certain that this consideration has not been lost sight of by the officials), then the Steel Corporation is acting in defiance of public welfare, and, if it continues in this course, will sooner or later be called to account.

To answer the question which has been raised, we turn to the current trade reports which chronicle the condition of the iron and steel trades in the various cities. From the weekly market reports from Chicago, Cleveland, Cincinnati, Pittsburg, Philadelphia, and New York, we learn the following:—

1. That demand in every department of the steel trade is far below its normal volume, averaging about 50 per cent. of last year's requirements;

2. That this condition is quite as pronounced in those lines where prices have been reduced as in the products which the Steel Corporation controls; and

3. That the only effect of the price reductions which have been made in all departments of the iron trade has been that the reduced volume of business has been given to the mills making the concessions, and that up to April 1, when the depression has already lasted five months, price cutting has been powerless to stimulate demand.

These conclusions are worth a little study and illustration. In the pig iron trade, where the Steel Corporation is prominent but not commanding, efforts to maintain prices have been fruitless. Assisted by the competition of Southern iron, prices have fallen $7 to $8 per ton. If there was anything in the argument that a reduction in prices would stimulate demand, it would appear in the iron trade. And yet we find here stagnation even more complete than in the steel business, accentuated, it seems, by the prevailing uncertainty as to the future course of prices. There is a great deal of competition among the mills for the small business offered, and the orders go, naturally, where the prices are lowest. Consumers of iron, in other words, are getting the benefit of a competitive struggle for business, but no more business is being done proportionately than in the various lines of steel production. How powerless price productions in iron are to stimulate business appears from the experience of the last few months. during which there has been a marked curtailment in iron production—this includes the iron used for steel making purposes—in the face of a heavy decline in price.

This is no unusual condition. It has characterized every period of business depresssion. In 1900, for example, the price of Bessemer pig iron on January 1 was $25 per ton at Pittsburg. Business was dull, and but little iron was sold. Some shading of prices resulted, with but little effect on the demand. By the middle of May the Iron Age stated that "it was impossible to sell iron at any price," and in spite of reductions by agreement, from $20 to $16 in July, little business was done. These prices were reduced to $13 in October, where they remained during the rest of the year, but demand was small and few sales were made. The same phenomena, prior to the formation of the Steel Corporation in 1901,

characterized the steel markets during periods of depression. There was fierce competition and heavy price cutting, which did not, however, stimulate demand, but merely divided a limited amount of business among rival bidders, while at the same time increasing the uncertainty and hesitation of the buyer, who at such times is prone to hold off in the hope of further concessions. It is recognized as an invariable characteristic of the metal markets during such periods that demand is half dead, and that price cutting, no matter how drastic, is powerless for its resuscitation. If further confirmation of this proposition is needed, it is furnished by the steel markets at the present time. Prices are everywhere being firmly held by the Steel Trust, and yet the demand for steel, if the market reports indicate anything of the situation, is somewhat stronger than where the influence of the trust is not potent to restrain competitors from costly and useless reductions.

These facts show that the necessity of adjusting prices to changed conditions of demand, which is generally believed in as one of the economic axioms needing no demonstration, does not exist in the field of materials and machinery. Iron and steel products, aside from the limited amount needed for household purposes, are bought to make money from their use. Steel rails, structural shapes, plates, wire, merchant bars, are purchased by people who wish to turn these materials into some form of industrial plant,—railroads, office buildings, cars and locomotives, ships, machinery of all kinds, appliances which in their turn are bought from the same motive of a desire for profit. In this respect, iron and steel differ radically in the conditions of their production and demand from flour and meat, and oil and sugar, which are bought because they minister directly to human wants. The purchase of iron and steel is primarily a question of the

condition of trade rather than the price of the articles purchased. If railway earnings are increasing and railway securities are selling readily at high prices, the railway demand for iron and steel, which has been estimated at from 40 to 50 per cent. of the total demand for these products, is strong and increasing. Prices of rails and shapes may be high, but, unless there is some reason to believe that they will decline in the near future, the railways and the locomotive and car builders place large orders. Price is a secondary consideration. What is wanted is immediate delivery, to furnish the rails and equipment for a rapidly growing and profitable traffic. Very often high premiums will be paid for immediate delivery.

On the other hand, when railway earnings are declining, as they are at present, when new issues of stocks and bonds are practically unsalable, when 300,000 freight cars stand idle, and with no prospect of an immediate resumption of activity, railroads and all industrial enterprises confine their purchases to their current needs. They are holding back from new work, not only because the profits on such investments are not in sight, but because they cannot get the money.

Of what purpose, then, would be the reduction of the price of steel to these consumers of steel? Such a policy would not produce a large amount of new business. It would merely reduce profits on the business which the Steel Corporation now receives, and would be almost certain to result in serious disturbances in the Corporation's finances and in the general financial situation. If steel prices had been reduced on January 1 to correspond with the reduction in the prices of many other materials, but little more steel would have been sold, the profits of the Steel Corporation would have fallen to the vanishing point, and the railroads, builders, and manufacturers would have saved some money on their small business.

As it was in 1894, 1896, 1900, and 1903, so it has been in 1908. In every line of metal and material production where competition is not regulated and controlled, orders decrease, producers struggle savagely for a share in dwindling business, profits disappear, bankruptcies multiply. The buyer, in so far as he is not also a seller, and therefore subject to the same demoralizing and disheartening influence of competition, profits at the expense of the struggling rivals for his favor, but the effect of the competitive struggle in increasing the volume of business is insignificant. It may be objected that, if the Steel Corporation is increasing its export business by cutting prices, it could do the same thing in America. To this the answer is that these foreign sales represent business taken from foreign competitors of the trust. It is hardly advisable that the Steel Corporation should drive itself and its domestic rivals into bankruptcy by introducing this policy into its domestic sales. Neither would the general consumer profit from a temporary reduction in steel prices. Such a decline is not felt by the general consumer, who would never be able to find in his domestic budget any trace of a temporary reduction in the price of steel rails, or any lessening of the fees of the physicians, lawyers, or engineers whom he employs, because the cost of office buildings and the scale of office rents had been for the time being reduced by cut in the price of structural steel.

It is also to be stated, and that most emphatically, that if the experience of the competitive régime is worth anything as a guide to our judgment, not only would the public at large fail to profit by the reduction of steel prices, but the return of prosperity would be seriously delayed by an abandonment of its settled policy on the part of the Steel Corporation. Such a change would introduce uncertainty and hesitation into the plans and calculations of every purchaser of steel. What is needed for the return

of good times is the restoration of confidence, a general conviction that industrial and financial conditions are becoming settled, so that business men can plan for the future in the belief that their calculations of profit will be confirmed by the event. To the restoration of confidence, because it makes for settled and permanent industrial conditions, the price policy of the Steel Trust is a powerful aid. Any departure from that policy would be a strong deterrent to the undertaking of new schemes of construction, upon which, as we have seen, the revival of business directly depends. Many new projects are lying dormant, awaiting the return of confidence. As soon as financial conditions improve to such a point that securities can be sold, these enterprises will be launched. It is of great importance to their early flotation that no elements of uncertainty and hesitation should be introduced into the calculations of their promoters by a break in steel prices.

That the United States Steel Corporation was excessively capitalized cannot be denied. That its average profit of $16 per ton is grossly excessive will not be questioned, least of all by those who pay the prices which make these profits possible. That the community would be benefited if steel prices could be permanently fixed on a lower level is not, in my opinion, open to question. All this, however, is beside the point that for the Steel Corporation, having once established a level of prices, to depart from this policy for no better reason than because a financial panic has temporarily suspended the industrial animation of the United States would be a foolish, because a gratuitous, contribution to its customers at the expense of its stockholders.

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